

Fairfax County Economic Index

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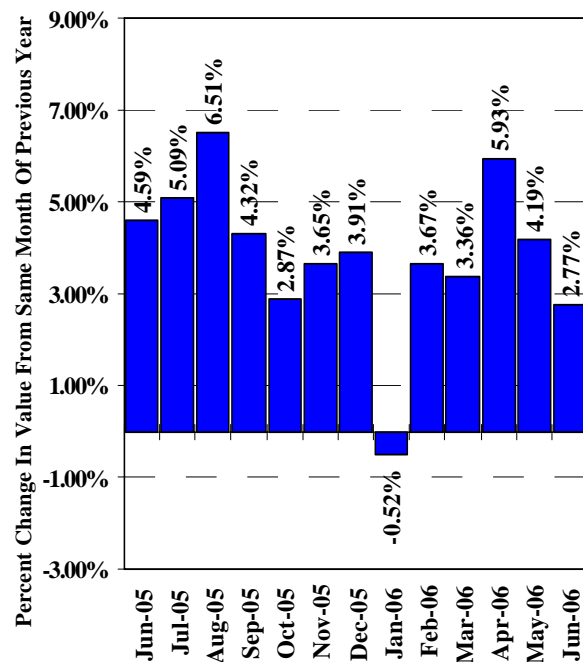
August 2006

The Fairfax County Economy Slowed Further in June But Outlook Remains Good

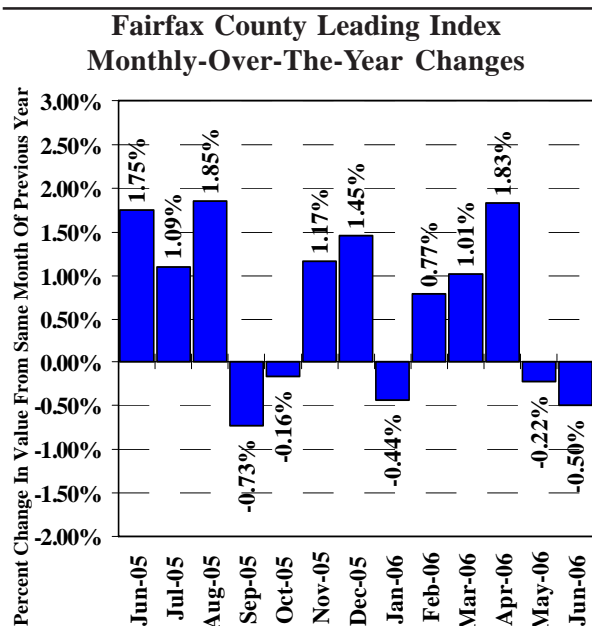
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 137.13 in June for a loss of 0.94 percent although its previous decline in May was not as great as had been initially reported. On a monthly over-the-year basis, the Coincident Index continued to increase gaining 2.77 percent from June of 2005 extending its monthly over-the-year gain to a fifth consecutive month. Over the full expansion, the Index has increased in thirty of the past thirty-one months (January 2006 was the sole negative month). In June, two of the Index's four indicators were negative.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, fell for the third time in four months; and,
- Consumer confidence (in the present) was down following seven monthly gains; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased for the first time in three months; and,
- Total employment grew from May to June after having declined in May.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 108.62 in June for a gain of 0.62 percent. On a monthly over-the-year basis, the Index fell below its respective same-month value in 2005 for a second consecutive month. Since turning positive 39 months ago, the Leading Index has been up in 34 months and down in five (January, May and June in 2006, September and October in 2005). In June, two of the Index's three component indicators were responsible for its month-to-month increase.

- Automobile registrations were up sharply in June after declining in April and May; and,
- Initial claims for unemployment insurance decreased (improved) after increasing for two months; while,
- Consumer expectations (consumer confidence six months hence) decreased for the third time in four months.

Fairfax County's economy continued to slowdown in June following a similar performance in May. This slowing reflected weakness at the national level attributable to the rapid increase in energy prices, continuing uncertainty about interest rates, growing anxiety regarding the Middle East, and increasing consumer debt burdens. These conditions

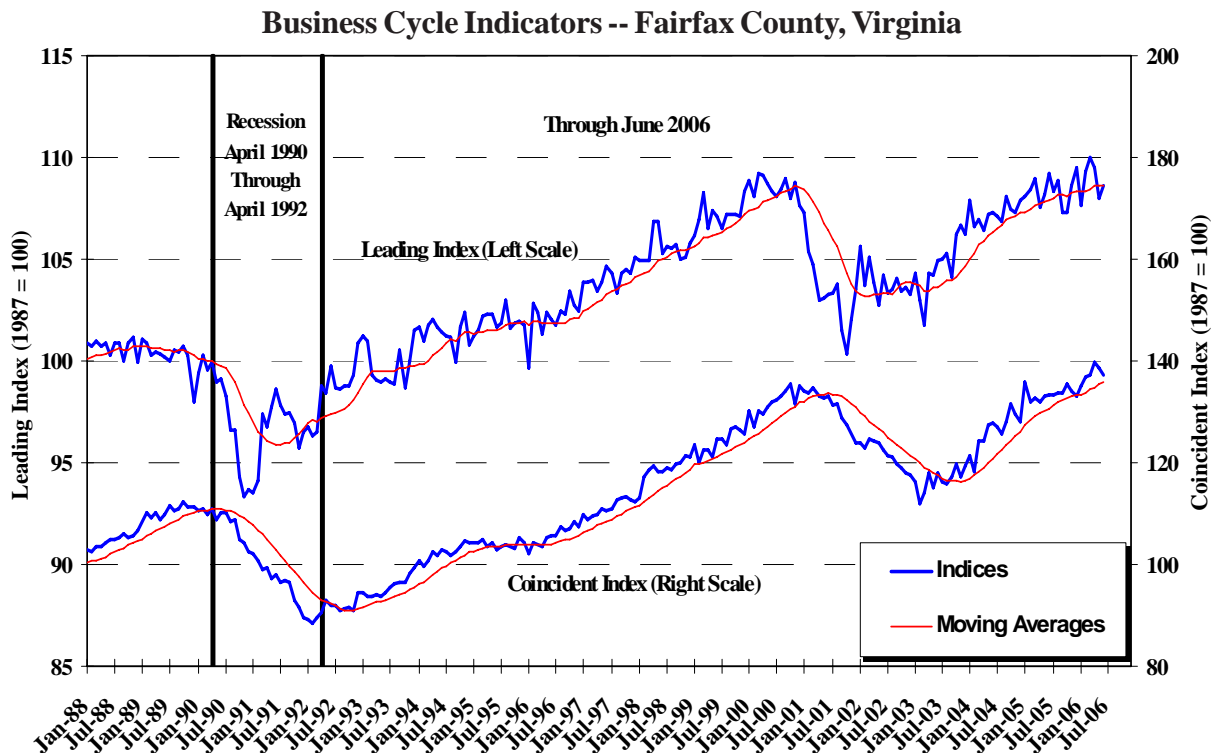
have been reflected in weaker consumer confidence and the slowdown in the housing market. As a result, the Coincident Index is down for a second month although it still is higher than a year ago. This two-month negative performance is not a trend. With the Leading Index pointing higher, the County's economy is expected to bounce back from the summer doldrums and resume its expansion in September and October. After the third quarter, slower growth is expected to become a more normal pattern that will extend into 2007.

CURRENT CONDITIONS

The national economy slowed further over the summer months. The evidence of this slowing is now clear. GDP growth in the second quarter was only 2.0 percent after gaining 5.6 percent during the first quarter. And, there is growing consensus that the economy will grow at a rate below trend (3.0 percent) for the next six quarters. Productivity growth has dropped to 1.1 percent suggesting that wage inflation is a strong possibility in the near term. Job growth has also slowed and unemployment is up, although this may be driven more by new workers entering the labor force because the economy is stronger than from lay offs. Still, initial claims for unemployment insurance have crept up. And, energy prices appeared to stabilize in mid-August after dragging the economy lower for three months.

The good news is that the Federal Reserve Board held interest rates steady at their August meeting following seventeen consecutive quarter-point increases over the last two years. This action will freeze interest rate increases at least until September 20th. If the economic news remains weak and inflation fears abate, it is likely the interest rates will hold at current levels for the remainder of the year. Even if rates move up a quarter point in the fall, there is growing consensus that rates will have to come down in 2007 to stimulate the slowing economy. The economy is taking a break after three strong years to re-balance its distortions. Once this process is complete, it is expected to accelerate slightly but this is not likely to happen until 2008.

Fairfax County's economy reflected the national economy's weak performance in both May and June. Still, the underlying strength of the region's economy has helped it to outperform the national economy. Job growth in the Washington area is run-



Source: Center for Regional Analysis, George Mason University

ning ahead of forecast with almost 76,000 net new jobs being added during the year ending in June. In Fairfax County, its job gains continue to average about 22,000 annually, for a 3.6 percent growth rate. Unemployment in the County remains at or near the 2.0 percent level.

The one major negative sign that remains is weak consumer spending. With consumer confidence slipping and consumer debt burdens increasing, retail spending has lagged. Spending on new homes in the County is also down as is the average value of the resale housing; it dropped 2.6 percent in July from July 2005. This is the first monthly over-the-year decline in housing prices in more than 9 years. Consumers are taking a temporary time out and should return to the market place in the fall now that interest rates have stabilized, energy prices have started to fall, and the Middle East has calmed down after its latest crisis.

NEAR-TERM OUTLOOK

The leading indicators continue to trend higher but are not as strong as in the past. This

mixed picture is consistent with the slowdown in the general economy. Consumer expectations have never fully recovered and are still tracking below the norm. Consumers do not think that the economy will be better in six months. This pessimism can undermine consumer spending for housing, autos, furniture, and other expensive products. Higher interest rates are discouraging borrowing. Still, business investment remains strong as does capital spending by local government. In Fairfax County, significant commercial development is helping to off set slower residential construction.

The Leading Index is pointing to a bump up in the economy in the coming months followed by some further slowing at the end of the year and into 2007. As energy prices retreat over the next several months and with continuing interest stability, this growth pattern should be achievable. How the economy performs in 2007 will depend more on external than internal forces with federal spending, energy prices, and monetary policy playing key roles in the County's economic performance in the coming year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jun-06 Prelim.	May-06 Final	Jun-05 Final	May-06 to Jun-06	Jun-05 to Jun-06
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	137.13	138.43	133.44	-0.94	2.77
Leading Index (1987 = 100)	108.62	107.96	109.17	0.62	-0.50
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	633,454	632,533	611,487	0.15	3.59
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	640,961	633,273	618,733	1.21	3.59
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	809	843	750	-4.01	8.00
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,557	1,582	1,394	-1.56	11.69
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,252	9,103	9,316	1.64	-0.68
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	14,035	13,047	13,354	7.57	5.10
South Atlantic Consumer Confidence	147.7	156.1	150.3	-5.38	-1.73
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,349	5,291	6,676	19.99	-4.89
<i>Automobile Registrations (Unadjusted)</i>	7,151	5,841	7,519	22.43	-4.89
Initial Unemployment Claims (Seasonally Adjusted)	879	919	840	-4.40	4.64
<i>Initial Unemployment Claims (Unadjusted)</i>	834	842	797	-0.95	4.64
South Atlantic Consumer Expectations (Unadjusted)	92.4	94.0	105.5	-1.70	-12.42
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	599,687	600,446	588,303	-0.13	1.94
<i>Total Labor Force (Unadjusted)</i>	608,947	602,836	597,387	1.01	1.94
Employed Labor Force (Seasonally Adjusted)	586,843	587,906	573,389	-0.18	2.35
<i>Employed Labor Force (Unadjusted)</i>	593,742	590,135	580,129	0.61	2.35
Unemployed Labor Force (Seasonally Adjusted)	12,844	12,540	14,914	2.42	-13.88
<i>Unemployed Labor Force (Unadjusted)</i>	15,205	12,701	17,258	19.71	-11.90
Unemployment Rate (Percent, Seasonally Adjusted)	2.1%	2.1%	2.5%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.5%	2.1%	2.9%	--	--

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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